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SUBJECT: SECRETARY GUTIERREZ'S MEETINGS WITH PRESIDENT ARIAS

REFS: A) San Jose 745 (NOTAL), B) San Jose 774, C) San Jose 823
(NOTAL)

11. (SBU) SUMMARY: In two meetings held in the presidential office complex on September 30, President Oscar Arias and Commerce Secretary Carlos Gutierrez, joined by senior staff, discussed a wide range of political and trade issues centered on Costa Rican entry into CAFTA. Arias emphasized the political cost he had paid to move Costa Rica almost to CAFTA implementation and asked for USG understanding and flexibility as the GOCR neared entry-into-force. Arias and his ministers asked that USTR accept a proposal permitting them to enter CAFTA as soon as the 13th bill (on IPR catch-all issues) was modified and approved, with a pledge to complete all other issues, including a 14th technical corrections bill, if needed, after entry-into-force (EIF). Secretary Gutierrez made clear that any decision on a CAFTA proposal was USTR's, not his, but he said he would make it a priority to discuss the proposal with USTR when he returned to Washington. The Secretary also briefed Arias on Bolivian and Cuban developments, while members of the Secretary's party briefed on new and continuing OPIC, Ex-Im and U.S. Trade and Development Agency initiatives. Minister of Foreign Trade Ruiz suggested a CAFTA-related meeting on the margins of the next Americas Competitiveness Forum, to presage the much-delayed CAFTA Ministerial and to highlight the benefits of CAFTA and free trade in contrast to the populist alternatives being offered around Latin America. President Arias also reiterated his well-known pitch for merit-based foreign assistance. Secretary Gutierrez's staff cleared this report. Other visit events will be reported septel. END SUMMARY.

SMALLER MEETING: CAFTA SIDE LETTER, CUBA AND BOLIVIA

12. (U) The events opened with a small meeting in the President's office involving President Arias, Secretary Gutierrez, and senior GOCR officials. With Arias were FM Bruno Stagno, Minister of Foreign Trade Marco Vinicio Ruiz, National Legislature President Francisco Pacheco and Ambassador Tomas Duenas from Washington. With the Secretary were Ambassador Cianchette and DCM Brennan.

13. (SBU) THE CAFTA SAGA: Arias was more animated than Post had observed for some time, as he explained the long CAFTA saga in Costa Rica, stressing the importance of the 2007 national referendum which narrowly ratified the treaty, and the significance of CAFTA changing Costa Rica's 60 year-old traditional, statist model. Recalling the long, tough political battle over the referendum, and noting that the anti-CAFTA forces had many factors in their favor, including the unions, the universities, the church, "and very probably Venezuelan money," Arias emphasized, "I exposed myself politically, and there has been a political cost." If CAFTA doesn't go through, he warned,

it will be a victory for Venezuela's Chavez, (the leading opposition party) PAC, and the extreme leftist forces that have been resurgent throughout the region.

14. (SBU) PITCH FOR FLEXIBILITY: The President admitted that he and "everyone else" had fully expected the last (13th) CAFTA implementation bill (the "catch all" on IPR issues) to get through the Constitutional Court easily; they were all surprised by the Court's September 11 ruling (which rejected a portion of the bill as unconstitutional, Refs A-B). Under the circumstances, Arias therefore asked for understanding and flexibility on our part. "I would like to ask that as soon as this law is corrected, we be allowed to enter into CAFTA - sin condicionamientos (without conditions)."

15. (SBU) LEGISLATION VS THE GOCR PROPOSAL: When Secretary Gutierrez asked about USTR's expectations, Ruiz responded that USTR wanted some "small word changes" in IPR language that would require new legislation. The GOCR had originally thought that these could be fixed through regulations, but now realized that they could not. Pacheco then chimed in, confirming that some of the changes (not specified) "demanded" by USTR would require legislative approval, and complaining that these seemed to be relatively minor and inconsequential given all that had been accomplished to this point. It would be a shame, he added, to have all of CAFTA bogged down and perhaps jeopardized over such seemingly small matters.

16. (SBU) Minister Ruiz then asserted that the GOCR did not want the tariff holdbacks that USTR seemed to be contemplating as a condition if Costa Rica could not complete its CAFTA EIF requirements on time. He and Arias said this would look very bad for everyone and would be touted as a victory by the PAC-led opposition. Ruiz said they preferred a side letter - which Arias said he would be willing to sign - committing them to get the remaining items done, including new legislation as needed, in the next legislative session (which begins December 1). Ruiz re-emphasized that the GOCR did not want any holdbacks. Returning to the historical context, Arias reiterated that for Costa Rica, CAFTA was the culmination of a "process of state reform that has taken more than 20 years - we don't want to lose it now."

17. (SBU) Secretary Gutierrez made clear that any decision on a CAFTA side letter was USTR's, not his, but he offered to take the proposal back to Ambassador Schwab and see what could be done. He said he could not provide any guarantees or promises on the decision, but he would make it a priority to discuss with Schwab. He said he would be back in his office on October 3, and planned to discuss CAFTA then with Schwab, after which he would get in touch with Ambassador Duenas at the Costa Rican Embassy.

18. (SBU) BOLIVIA AND CUBA: Secretary Gutierrez used the meeting to raise two additional issues with President Arias: the non-renewal of ATPDEA for Bolivia, and Cuba's refusal of humanitarian assistance from the U.S. in the wake of Hurricanes Ike and Gustav. The Secretary told Arias that he wanted the GOCR to understand the background and context on both issues. On ATPDEA, the Secretary described how the U.S. had been trying very hard to work with President Morales and the GOB, but when they began shutting down USG cooperation programs and then threw out our Ambassador, there was no option.

19. (SBU) Regarding aid to Cuba, Secretary Gutierrez pointed out that the U.S. had been doing everything it could as a humanitarian gesture to help the Cuban people, but the GOC had repeatedly (four times at that point) refused our assistance. Gutierrez added that he simply wanted President Arias to know and understand the USG position. He pointed out that while there's a great hue and cry over the embargo, most countries don't know that the U.S. is the top food and humanitarian assistance provider to Cuba, and the 2nd top provider of medicines. Arias and FM Stagno acknowledged these points, and thanked Gutierrez for the insights.

LARGER MEETING: HISTORY OF, NEED FOR, BENEFITS FROM CAFTA

110. (U) Moving to the Cabinet Room, Arias, the Secretary and the participants in the first meeting were joined by a larger group

including, on the GOCR side, Minister of the Presidency Rodrigo Arias (briefly) and Gabriela Llobet, Director of CINDE, the GOCR's private, non-profit foreign direct investment development agency. On the USG side, OPIC President and CEO Robert Mosbacher, Ex-Im Bank 1st VP and Vice-Chair Linda Conlin, Trade and Development Agency Director Larry Walther, Commerce DAS Walter Bastian and Senior Advisor Ambassador (ret.) Lino Gutierrez, and Embassy Pol-Econ Counselor (notetaker) joined the session.

¶11. (U) MORE CAFTA CONTEXT: President Arias opened by elaborating on the CAFTA and Costa Rican history he had described in the first meeting. He stressed that Costa Rican and U.S. values were similar, and that his country was "the most democratic" in Latin America, according to a recent study by the Adenauer Foundation. Abolishing the military in 1948 had allowed the GOCR to invest in education and health care, fueling a higher level of social development than elsewhere in the region. In addition, Costa Rica had opened trade, the "motor" of economic development. Arias said he made the "unilateral decision" during his first term as president (1986-1990) to lower tariffs by 40%, open the Costa Rican economy, and begin to better integrate with the world and the region, including by using free trade agreements.

¶12. (SBU) None of the other Costa Rican FTAs had been as polemical as CAFTA, however. Lacking the votes to ratify it in the legislature, Arias said he took CAFTA to a referendum, winning by a very close margin (less than 50,000 votes). Because CAFTA would break up the long-popular state monopolies on telecommunications and insurance, it took a long time for public support to build, and Arias had to "gradually educate" the populace. Now, the GOCR was "correcting the errors" found by the Constitutional Court in the final CAFTA law, the 13th to be passed by the legislature in about a year. Managing the five-party pro-CAFTA coalition to get this far had been difficult, he stressed. The entire process had been an "ordeal," and he and Secretary Gutierrez had been discussing how best to bring the process to a close. The President concluded that foreign investment remained important to Costa Rica, which was now attracting more FDI per capita than Brazil or Mexico. Costa Rica's tranquility, rule of law, democracy, and "absolutely independent" judiciary made this possible.

¶13. (U) LONGSTANDING US-COSTA RICAN PARTNERSHIP: In response, Secretary Gutierrez thanked President Arias for his and Costa Rica's friendship to the United States, and offered greetings from POTUS. He also commended Arias for his leadership on CAFTA. Despite the remaining problems reaching implementation, Costa Rica would not have been this far along without Arias's firm direction. The Secretary noted the business delegation traveling with him to take advantage of the opportunities to invest in Costa Rica, even as CAFTA was being completed. "CAFTA without Costa Rica would not be CAFTA," he stressed, and CAFTA membership had obvious benefits for Costa Rica. The Secretary then opened the floor to other USDEL members as follows:

-- OPIC's Mosbacher noted that his agency was not waiting for CAFTA completion, but was announcing USD 105 million in new lending for small- and medium-sized businesses and low- to moderate-income homeowners in Costa Rica, partnering with Banco Lafise and BAC. He added that OPIC had provided over USD 200 million in projects in Costa Rica over the last two years, and over USD 370 million over OPIC's history;

-- Ex-Im's Conlin noted that her organization "was no stranger" to Costa Rica, having provided USD 46 million in a "broad spectrum" of projects over the last six years. Ex-Im wants that positive relationship to continue, she said, and agreed that finance could be the catalyst for the "trade and commercial engine" of the Costa Rican economy;

-- TDA's Walther described his agency's long-time partnership with Costa Rica, in particular on infrastructure projects such as electrical production and the early stages of expansion for San Jose's Juan Santamaria International Airport; and

-- Lino Gutierrez thanked Arias and the GOCR for their constant support for human rights issues around the globe, and especially on Cuba, which was important to both Secretaries Gutierrez and Rice.

¶14. (SBU) Returning to the infrastructure theme, President Arias noted that nearly two million tourists visited Costa Rica each year, equivalent to half the nation's population, but the country's airports, roads and ports were not able to handle the flow. The GOCR hoped to concession the major Caribbean port of Limon, he said, but it might take four more years to convince the powerful dockworkers' union there. Arias expressed thanks for all the USG and international support to projects and financing which aided small and medium companies in Costa Rica. Many of these had the "export mentality" that was essential to keep the economy growing.

A MEETING BEFORE THE FIRST CAFTA MINISTERIAL?

¶15. (SBU) Minister Ruiz used the session to suggest a bi-national US-Costa Rica CAFTA commission meeting in the next few months, including "observers" from the private sector and academia. "The world is watching Central America and CAFTA," he asserted, and if CAFTA should be "closed" to Costa Rica (by not entering into force), he feared a significant loss in investment and trade. An international vehicle was needed to highlight the benefits from CAFTA and trade agreements. A bi-national entity would not have to wait for the long-delayed first CAFTA Ministerial, he added, and could underscore the "strategic partnership" between Costa Rica and the United States while also countering the "alternative" political and development model being offered by Venezuela, Nicaragua and Bolivia. DAS Bastian noted that the Secretary and his delegation had also been asked about the CAFTA Ministerial during their visit to the Dominican Republic prior to visiting Costa Rica. A meeting along the lines described by Ruiz, but expanded to include other CAFTA partners, might be worth considering.

¶16. (SBU) PITCH FOR MERIT-BASED ASSISTANCE: President Arias closed the session by returning to familiar arguments about Costa Rica "deserving" additional international assistance. As a "middle income" country, Costa Rica did not receive much USG assistance, he asserted, although "70% of the world's poverty" was concentrated in middle income nations. Although Arias had no objection to wealthier nations helping the poorest countries, he was concerned by the aid recipient nations who purchased weapons instead of focusing on development needs such as education. "Never has Latin America seen such a time of (inter-state) peace," he said, and yet nations like Venezuela and Chile are buying arms. It is "schools and clinics" that the developing world really needs, he said, and not arms. Thus Arias underscored his continued campaign for merit-based as well as needs-based foreign assistance.

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